BUSINESS INFORMATION BUREAU
CORPORATION FILE

ANNUAL REPORT

NATIONAL TEA CO.

FOR THE YEAR ENDING DECEMBER 31, 1937

MRB
CORP. FILE

1000 Crosby St., Chicago.
February 28, 1938.

To the Stockholders of the
National Tea Co.

There is submitted herewith the annual report of your Company for the year ending December 31, 1937.

The result of operations for the year, after all charges, including depreciation of $932,830.42, is a loss of $1,365,279.96, as compared with a profit of $226,750.30 for the year 1936.

As compared with a year ago, the Company has $320,000.00 more cash on hand and has reduced its current liabilities $1,024,055.44. Merchandise inventories have been reduced approximately $1,800,000.00, which in our opinion is favorable, and while the net working capital has been reduced $440,000.00, the ratio of current assets to current liabilities is slightly improved.

Consolidated sales for the year amounted to $62,100,160.50 as compared with $62,485,319.71 for the prior year, or a decrease of .62%. At December 31, 1937 the Company operated 1,205 stores of which 471 were combination grocery and meat markets, as compared with 1,221 of which 477 were combination stores at December 31, 1936.

The Company at December 31, 1937 had future commitments for the purchase of merchandise, beyond current needs, of not more than $200,000.00 and at prices not exceeding the then current purchase prices.

Dividends of 15c per share were paid on the Common Stock at April 1, 1937 and discontinued after that date. Dividends on the outstanding Preferred Stock were paid to November 1, 1937, but the usual quarterly payment due February 1, 1938 was omitted.

During the year, the Company obtained a 5% mortgage loan of $500,000.00 secured by 54 out of a total of 170 store properties owned, with principal payable serially to July 1, 1947. The proceeds of this loan were used for working capital.

In accordance with the terms of an indenture entered into between the Company and Nateco Realty Trust on January 1, 1928, the Company was required to purchase three store properties from the Nateco Realty Trust on December 31, 1937, for which it issued its promissory note due May 31, 1939 in the amount of $131,023.94.

Like many others, this Company in its more prosperous days put too large a proportion of its assets into land and buildings; as a result, in addition to owning 170 store properties, the Company owns warehouses, garages and factory properties, some of which are either not used by us or only partially used, and the Board of Directors intends to give this situation serious consideration during the coming year.

Of our total of 1,205 stores, 18 are rented from employees or directors of our business. None of the rents are high; others are very reasonable indeed. Thirty-six (36) of our store properties are leased from the Nateco Realty Trust, in which this Company owns a half interest. All of these leases expire on or before May 31, 1939, at which time we shall be free to act for the best interests of the Company.

We have 18 subsidiaries, all wholly owned by the Company; some of them are inoperative, and probably most of them should be dissolved and their operations made simply departments of the National Tea Co.

Our purchases of food and supplies are made on a strictly competitive basis. We are not hampered in this, as no officer or director has any substantial investment in any manufacturer from whom we buy.

The poor showing made by the Company during the year is attributed to higher taxes, higher labor costs, ineffective merchandising, and the difficulty of management and ownership to agree on important operating policies.

On January 27, 1938, at the invitation of the Board of Directors and the larger stockholders, Mr. John McKinlay accepted the position of Chairman of the Company and Chief Executive Officer for a period of three years. His arrangement, in addition to a nominal salary, provides for the payment to him of a commission on the net profits of the Company for each year (after providing for dividends on the present outstanding Preferred Stock) of 7% of the first $500,000.00 of such net profits, 5% of the next $500,000.00, and 3% of net profits in excess of $1,000,000.00.

It is our hope that with attention to the problems enumerated above, a closer adherence to fundamental merchandising policies, clearly defined managerial responsibility, and a co-operative spirit on the part of all employees, the results for the coming year will show an improvement.

Respectfully submitted,

JOHN MCKINLAY,

Chairman.

BY ORDER OF THE BOARD OF DIRECTORS

CONSOLIDATED

DECEMBE

ASSETS

CURRENT ASSETS:		
Cash on hand and in banks		$ 1,273,686.00
Notes receivable (less reserve for doubtful notes)		18,262.27
Accounts receivable—		
Trade	$ 236,496.57	
Due from Relief Agencies	155,478.21	
Other receivables and deposits	68,412.52	
	$ 460,387.30	
Less: Reserve for bad debts	33,854.11	
		426,533.19
Inventories of merchandise and supplies on hand and in transit, certified as to quantities and condition by officials of the company and valued at cost or market, whichever is lower		5,203,720.76
Total current assets		$ 6,922,202.22
EMPLOYES' STOCK SUBSCRIPTION CONTRACTS:		
Investment in contracts for sale of preferred stock of National Tea Co., secured by stock of National Tea Co. and guaranteed		50,815.69
MORTGAGES AND NOTES RECEIVABLE		16,183.29
INVESTMENTS:		
Nateco Realty Trust (represented by 500 certificates of beneficial interest, being 50% ownership at cost)	$ 668,870.51	
Sundry	4,217.63	
		673,088.14
PROPERTIES—AT COST UNLESS OTHERWISE STATED:		
Land	$ 3,155,417.42	
Buildings (at cost, less reduction in valuation as of June 17, 1935 as determined by Board of Directors) $4,958,364.14		
Less: Reserve for Depreciation 1,531,277.10		
	3,427,087.04	
Store fixtures and equipment $6,283,768.80		
Less: Reserve for Depreciation 4,233,344.04		
	2,050,424.76	
Machinery, fixtures and equipment $1,835,313.03		
Less: Reserve for Depreciation 1,433,345.53		
	401,967.50	
Delivery equipment $ 866,412.10		
Less: Reserve for Depreciation 673,780.89		
	192,631.21	
		9,227,527.93
GOOD WILL		1.00
DEFERRED CHARGES:		
Prepaid rents, taxes and insurance		139,200.00
		$17,029,018.27

BALANCE SHEET

R 31, 1937

LIABILITIES AND CAPITAL

CURRENT LIABILITIES:		
Notes payable		$ 1,430,000.00
Accounts payable—		
Trade, etc.	$1,146,169.95	
Pay roll and commissions	36,384.62	
Interest and taxes	530,032.53	
Employes' deposits	9,217.14	
Provision for unjust enrichment tax	88,080.90	
Provision for federal and social security taxes	188,343.97	
		1,998,229.11
Real estate mortgage notes due in 1938		70,250.00
Commercial Letters of Credit (Merchandise received or in transit)		123,234.64
Total Current Liabilities		$ 3,621,713.75
NOTES PAYABLE—NATECO REALTY TRUST, DUE MAY 31, 1939		131,023.94
REAL ESTATE MORTGATE NOTES, DUE SERIALLY FROM JANUARY 2, 1939 TO JULY 1, 1947		554,250.00
RENTAL OF CLOSED STORE PAYABLE SUBSEQUENT TO 1938		29,000.00
CONTINGENT RESERVE		54,811.05
PREFERRED STOCK, 5½% CUMULATIVE:		
Authorized and issued....200,000 shares of $10 each		2,000,000.00
Less: Held in Treasury. 52,120 shares		
Outstanding....147,880 shares		
COMMON STOCK:		
Authorized....800,000 shares of no par value		
Issued....660,000 shares		8,250,000.00
Less: Held in Treasury. 31,750 shares		
Outstanding....628,250 shares		
EARNED SURPLUS:		
As per statement attached	$ 3,246,934.83	
Less:		
Capital stock held in treasury—		
Preferred—52,120 shares....$518,049.25		
Common—31,750 shares.... 340,666.05		
	858,715.30	
		2,388,219.53
		$17,029,018.27

INCOME AND SURPLUS ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 1937

SALES			$62,100,160.50
Deduct:			
Cost of sales and expenses, including sales and occupational taxes		$62,586,759.78	
Depreciation (including $60,000 additional charge on fixtures removed from closed stores)		932,830.42	
			63,519,590.20
NET OPERATING *LOSS*			*$ 1,419,429.70*
Deduct:			
Dividends received from investments—			
Nateco Realty Trust		$ 46,000.00	
Sundry stocks		41.95	
		$ 46,041.95	
Profit on disposal of capital assets		25,142.25	
Refunds of processing taxes (after deducting provision for unjust enrichment tax)		49,931.51	
			121,115.71
			$ 1,298,313.99
Add: Provision for lease cancellations or rentals on closed stores			64,750.35
Net *Loss* before provision for federal income tax			*$ 1,363,064.34*
Provision for federal income tax on profits of subsidiary company			2,215.62
Net *Loss* transferred to Surplus			*$ 1,365,279.96*
Earned Surplus, January 1, 1937		$ 4,774,300.47	
Deduct: Dividends paid—			
Preferred	$67,848.18		
Common	94,237.50		
		162,085.68	
			4,612,214.79
Earned surplus as per balance sheet			$ 3,246,934.83

The President and Board of Directors,
National Tea Co., Chicago

We have made an examination of the consolidated balance sheet of National Tea Co. as at December 31, 1937 and of the statement of consolidated income and surplus for the year 1937. In connection therewith we examined or tested accounting and other corporate records of the company and its wholly owned subsidiary companies and obtained information and explanations from officers and employes of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related statement of income and surplus fairly present, in accordance with accepted principles of accounting consistently followed by the companies, the financial position at December 31, 1937 and the results of the operations for the year.

ARTHUR YOUNG & CO.

Chicago, Illinois—February 15, 1938. Certified Public Accountants.

National Tea Co.

Directors

Frederick H. Massmann

George Rasmussen, Jr.

Th. Rasmussen

Burt J. Dickens

Robert V. Rasmussen

Joseph L. Merrill

W. E. Russell

Officers

John McKinlay
Chairman

Frederick H. Massmann
President

Robert V. Rasmussen
Vice-President

Th. Rasmussen
Treasurer

Burt J. Dickens
Secretary

W. E. Russell
Comptroller